

**Detroit Public Library
Detroit, Michigan**

FINANCIAL STATEMENTS

June 30, 2013

Detroit Public Library

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INDEPENDENT AUDITOR'S REPORT

To the Detroit Library Commission
Detroit Public Library
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Public Library (the Library) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Detroit Public Library Friends Foundation, Inc., which represent 100% of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Detroit Public Library Friends Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Detroit Public Library, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note R, the Library implemented GASB Statement No. 61, *The Financial Reporting Entity Omnibus*, during the year. As a result, the criteria for reporting component units as if they were part of the primary government (that is, blending) has been modified. Our opinions are not modified with respect to this matter.

Also discussed in Note R, the Library implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the new presentation as required by GASB Statements No. 63 and 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress and employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly presented, in all material respects, in relation to the basic financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Financial Reporting

The Detroit Public Library, (the "Library") has continued to revise and improve its financial report document as a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library by introducing accounting rules and systems that are common in the private sector. This report represents a broad picture of the Library's financial status. Through the comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The Library administration's discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Library's financial statements which immediately follow this section. For additional analysis of the Detroit Library Friends Foundation, Inc., please see their separately issued financial statements.

Financial Highlights

As discussed in further detail in this section, the following represents the most significant financial highlights for the year ended June 30, 2013:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$22,048,112 (net position) at the government-wide level.
- The Library's total net position decreased by \$5,323,622 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental funds reported a combined fund balance of \$19,131,477.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Detroit Public Library as a whole and present a longer-term view of the Library's finances. This long-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Detroit Public Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Detroit Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

The Library as a Whole

The following table shows, in condensed format, the net position as of June 30, 2013 and 2012.

	2013	2012
Assets		
Current and other assets	\$ 55,829,868	\$ 70,239,543
Capital assets	25,774,845	26,321,300
Total assets	81,604,713	96,560,843
Liabilities		
Current liabilities	13,646,016	16,122,601
Noncurrent liabilities	45,297,345	43,100,581
Total liabilities	58,943,361	59,223,182
Deferred Inflows of Resources	613,240	-
Net Position		
Investment in capital assets	25,774,845	26,321,300
Restricted	6,271,033	9,304,571
Unrestricted	(9,997,766)	1,711,790
Total net position	<u>\$ 22,048,112</u>	<u>\$ 37,337,661</u>

The Library's total net position was \$22,048,112 at June 30, 2013, a decrease of \$15,289,549 over the total net position at the end of the previous fiscal year. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) showed a deficit of \$9,997,766 at the end of the fiscal year, a decrease of \$11,709,556 over the previous year end. The investment in capital assets was \$25,774,845, a decrease of \$546,455 over the previous fiscal year.

The following table shows the changes in net position during the current and previous years.

	2013	2012
Revenues		
Program revenue		
Charges for services	\$ 583,329	\$ 696,906
Operating grants and contributions	814,082	496,139
General revenue		
Property taxes	29,810,438	31,342,277
Other taxes	934,906	-
Penal fines	427,987	443,628
Investment earnings	722,823	344,539
Miscellaneous	60,046	151,558
Total revenues	33,353,611	33,475,047
Program Expenses		
Library services/recreation and culture	38,677,233	42,077,036
Change in Net Position	<u>\$ (5,323,622)</u>	<u>\$ (8,601,989)</u>

Detroit Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Governmental Activities

The Library's governmental revenues totaled \$33,353,611 with the greatest revenue source being property taxes. Property taxes make up approximately 89 percent of total governmental revenue.

The Library incurred expenses of \$38,677,233 during the year. As a special purpose government entity, substantially all of the governmental expenses incurred are associated with the library service function.

The Library's Funds

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about specific funds, not the Detroit Public Library as a whole. The Detroit Library Commission may create funds to help manage money for specific purposes as well as to show accountability for certain activities.

The Library maintains six (6) governmental funds. Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the Library. The General Fund, Grants and Gift Fund, O'Brien Trust Fund, and the Burton Endowment Fund were considered major funds for the fiscal year ended June 30, 2013, for financial reporting purposes as defined by GASB Statements No. 34.

The General Fund pays for the Library's governmental services. The primary service provided during the fiscal year was library service, which incurred expenditures of \$35,563,949 for the fiscal year.

The Grants and Gifts Fund finances activities and services in accordance with grant and contribution requirements. The Grants and Gifts Fund incurred expenditures of \$291,717 and used other financing resources of \$1,433,597 during the fiscal year.

The O'Brien Trust Fund finances the development of Library staff in accordance with restrictions conveyed in the trust. The O'Brien Trust Fund incurred expenditures of \$75,159 during the fiscal year.

The Burton Endowment Fund finances the purchase of books, papers, pamphlets and other forms of historical data, which are suitable for the Burton Historical Collection located in the Detroit Public Library. The Burton Endowment Fund's incurred expenditures of \$62,404 during the fiscal year.

Budgetary Highlights

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

Taxes were approximately \$627,096 lower than anticipated for the fiscal year. The primary reason for the significant variance was a net of the chargeback amount and a decline in property tax values. In the previous fiscal year, the anticipated chargeback amount was \$8,836,637 although the amount decreased to \$7,861,558 in the 2013 fiscal year. Also, there was an adjustment made to the allowance for uncollectable property taxes during the current fiscal year which also contributed to the lower than anticipated tax revenue. Alternatively, intergovernmental revenue was approximately \$193,561 higher than anticipated due to the Library receiving e-rate funding for multiple previous fiscal years during the 2013 fiscal year. The budget was amended once during the fiscal year. The final budgeted expenditures were below actual expenditures by \$2,810,912.

Detroit Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$25,774,845 invested in land, land improvements, buildings and improvements, works of art, machinery and equipment, collections, and vehicles (net of accumulated depreciation). The capital assets added during the year were \$176,247 in building improvements, \$926,258 in machinery and equipment, and \$1,301,219 in collections (i.e., books, periodicals, audio, video, etc.). Note G to the financial statements provides additional information regarding capital assets.

The Library had a long-term liability for compensated absences in the amount of \$3,126,711 as of June 30, 2013. Note H to the financial statements provides additional information regarding long-term liabilities.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's office at 5201 Woodward Avenue, Detroit, Michigan 48202.

BASIC FINANCIAL STATEMENTS

Detroit Public Library
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government Governmental Activities	Component Unit Detroit Public Library Friends Foundation, Inc.
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,848,706	\$ 506,240
Investments	9,553,781	2,745,556
Receivables, net	117,295	-
Due from other governmental units, net	5,550,947	-
Prepaid expenses	102,976	-
Total current assets	31,173,705	3,251,796
Noncurrent assets		
Capital assets not being depreciated	1,603,632	-
Capital assets being depreciated, net	24,171,213	-
Cash surrender value - life insurance	-	13,006
Net pension asset	24,656,163	-
Total noncurrent assets	50,431,008	13,006
TOTAL ASSETS	81,604,713	3,264,802
LIABILITIES		
Current liabilities		
Accounts payable	1,125,658	9,148
Accrued wages	503,294	-
Accrued liabilities	719,522	-
Due to other governmental units	9,693,754	-
Current portion of compensated absences	1,538,788	-
Current portion of accrued workers' compensation payable	65,000	-
Total current liabilities	13,646,016	9,148
Noncurrent liabilities		
Noncurrent portion of compensated absences	1,587,923	-
Noncurrent portion of accrued workers' compensation payable	188,000	-
Advance payable to other governmental units, net	23,310,881	-
Other post-employment benefits obligation, net	20,210,541	-
Total noncurrent liabilities	45,297,345	-0-
TOTAL LIABILITIES	58,943,361	9,148
DEFERRED INFLOWS OF RESOURCES		
Swap termination fees	613,240	-
NET POSITION		
Investment in capital assets	25,774,845	-
Restricted for endowment purposes:		
Expendable	6,076,033	1,356,977
Nonexpendable	195,000	508,355
Unrestricted	(9,997,766)	1,390,322
TOTAL NET POSITION	\$ 22,048,112	\$ 3,255,654

See accompanying notes to financial statements.

Detroit Public Library
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	Component Unit
Primary government					
Governmental activities					
Recreation and culture	\$ 38,677,233	\$ 583,329	\$ 814,082	\$ (37,279,822)	\$ -
Component unit					
The Detroit Public Library					
Friends Foundation, Inc.	373,130	-	391,980	-	18,850
	<u>\$ 39,050,363</u>	<u>\$ 583,329</u>	<u>\$ 1,206,062</u>	(37,279,822)	18,850
General revenues					
Property taxes				29,810,438	-
Other taxes				934,906	-
Penal fines				427,987	-
Investment earnings				722,823	148,305
Miscellaneous				60,046	-
				<u>31,956,200</u>	<u>148,305</u>
				(5,323,622)	167,155
Restated net position, beginning of year				<u>27,371,734</u>	<u>3,088,499</u>
Net position, end of year				<u>\$ 22,048,112</u>	<u>\$ 3,255,654</u>

See accompanying notes to financial statements.

Detroit Public Library

Governmental Funds

BALANCE SHEET

June 30, 2013

		Special Revenue	
	General	Grants and Gifts	O'Brien Trust
ASSETS			
Cash and cash equivalents	\$ 13,682,112	\$ 1,624,623	\$ 289,151
Investments	4,049	2,665,261	3,365,789
Accounts receivable, net	117,295	-	-
Due from other governmental units, net	5,550,947	-	-
Due from other funds	1,072,561	-	-
Prepaid expenditures	102,976	-	-
TOTAL ASSETS	<u>\$ 20,529,940</u>	<u>\$ 4,289,884</u>	<u>\$ 3,654,940</u>
LIABILITIES			
Accounts payable	\$ 1,111,450	\$ 13,769	\$ 257
Accrued wages	503,294	-	-
Accrued liabilities	719,522	-	-
Due to other governmental units	9,693,754	-	-
Due to other funds	-	1,072,734	-
TOTAL LIABILITIES	12,028,020	1,086,503	257
FUND BALANCES			
Nonspendable	102,976	5,000	-
Restricted	-	2,494,540	-
Committed	121,700	-	3,654,683
Assigned	3,540,708	703,841	-
Unassigned	4,736,536	-	-
TOTAL FUND BALANCES	<u>8,501,920</u>	<u>3,203,381</u>	<u>3,654,683</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 20,529,940</u>	<u>\$ 4,289,884</u>	<u>\$ 3,654,940</u>

See accompanying notes to financial statements.

<u>Permanent</u>		
<u>Burton</u>	<u>Nonmajor</u>	
<u>Endowment</u>	<u>Governmental</u>	<u>Total</u>
<u>Funds</u>		
\$ 252,820	\$ -	\$ 15,848,706
2,991,665	527,017	9,553,781
-	-	117,295
-	-	5,550,947
-	173	1,072,734
-	-	102,976
<u>\$ 3,244,485</u>	<u>\$ 527,190</u>	<u>\$ 32,246,439</u>
\$ 182	\$ -	\$ 1,125,658
-	-	503,294
-	-	719,522
-	-	9,693,754
-	-	1,072,734
182	-0-	13,114,962
150,000	40,000	297,976
3,094,303	487,190	6,076,033
-	-	3,776,383
-	-	4,244,549
-	-	4,736,536
<u>3,244,303</u>	<u>527,190</u>	<u>19,131,477</u>
<u>\$ 3,244,485</u>	<u>\$ 527,190</u>	<u>\$ 32,246,439</u>

Detroit Public Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2013

Total fund balances - governmental funds **\$ 19,131,477**

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:

The cost of capital assets is	\$ 200,143,260	
Accumulated depreciation is	<u>(174,368,415)</u>	
Capital assets, net		25,774,845

Issuance of pension obligation certificates created a net pension asset, net of deferred swap termination fees.	24,042,923
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. Long-term liabilities at year-end consist of:

Compensated absences	(3,126,711)	
Accrued workers compensation payable	(253,000)	
Advance payable to other governmental units, net	(23,310,881)	
Other post-employment benefits obligation, net	<u>(20,210,541)</u>	
		<u>(46,901,133)</u>

Net position of governmental activities	<u>\$ 22,048,112</u>
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Detroit Public Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2013

		Special Revenue	
	General	Grants and Gifts	O'Brien Trust
REVENUES			
Taxes	\$ 30,958,548	\$ -	\$ -
Intergovernmental	1,171,324	-	-
Fines and forfeits	339,321	-	-
Charges for services	-	30,804	-
Interest	18,503	113,964	189,129
Other	58,992	71,462	-
TOTAL REVENUES	32,546,688	216,230	189,129
EXPENDITURES			
Current			
Recreation and culture	32,351,928	291,717	75,159
Capital outlay	3,212,021	-	-
TOTAL EXPENDITURES	35,563,949	291,717	75,159
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,017,261)	(75,487)	113,970
OTHER FINANCING SOURCES (USES)			
Transfers in	1,433,597	-	-
Transfers out	-	(1,433,597)	-
TOTAL OTHER FINANCING SOURCES (USES)	1,433,597	(1,433,597)	-0-
NET CHANGE IN FUND BALANCES	(1,583,664)	(1,509,084)	113,970
Fund balances, beginning of year	19,014,777	4,712,465	3,540,713
Prior period adjustment	(8,929,193)	-	-
Fund balances, end of year	\$ 8,501,920	\$ 3,203,381	\$ 3,654,683

See accompanying notes to financial statements.

Permanent		
Burton	Nonmajor	
Endowment	Governmental	Total
	Funds	
\$ -	\$ -	\$ 30,958,548
-	-	1,171,324
-	-	339,321
-	-	30,804
326,622	74,605	722,823
337	-	130,791
326,959	74,605	33,353,611
25,619	-	32,744,423
36,785	-	3,248,806
62,404	-0-	35,993,229
264,555	74,605	(2,639,618)
-	-	1,433,597
-	-	(1,433,597)
-0-	-0-	-0-
264,555	74,605	(2,639,618)
2,979,748	452,585	30,700,288
-	-	(8,929,193)
\$ 3,244,303	\$ 527,190	\$ 19,131,477

Detroit Public Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in fund balances - total governmental funds **\$ (2,639,618)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,403,724	
Depreciation expense	<u>(2,950,179)</u>	
Excess of depreciation expense over capital outlay		(546,455)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in net pension asset	414,676	
Decrease in compensated absences	8,717	
Decrease in accrued workers' compensation payable	24,000	
Decrease in swap termination fees	27,875	
Decrease in advance payable to other governmental units	354,692	
(Increase) in net other post-employment benefits obligation	<u>(2,967,509)</u>	
		<u>(2,137,549)</u>

Change in net position of governmental activities **\$ (5,323,622)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Detroit Public Library (the Library) is governed by the Detroit Library Commission, whose members are appointed by the Detroit Board of Education as authorized by Local Act 314 of 1881 (an amendment to Act 233 of 1869, "The Free School Act"). The Detroit Library Commission has six (6) members appointed by the Detroit Board of Education and the President of the Board of Education serves as an *ex-officio* member. Under the authority of Public Act 26 of 1921, the annual budget of the Detroit Library Commission shall be submitted to and passed upon by the Detroit City Council. The Library is considered a component unit of the City of Detroit.

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Library:

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statements No. 39 and No. 61); and Michigan Committee on Governmental Accounting and Auditing Statement No. 4, these financial statements present the financial activities of the Library (primary government) and its component unit. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The component unit described in Section 2 below should be included in the Library's reporting entity because of the significance of its operational or financial relationship with the Library. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Library.

2. Discretely Presented Component Unit

The Detroit Public Library Friends Foundation, Inc. (Friends Foundation) was organized to provide financial assistance to, and further the interests of, the Detroit Public Library. Program services rendered by the Friends Foundation include the procurement of literary and other materials for the use and benefit of the Library along with the organizing, producing, and reimbursing seminars, workshops and other programs to attract public interest in the various departments of the Library. The Friends Foundation activities are reported on a fiscal year-end of April 30. The financial statements for the Friends Foundation are audited separately and may be obtained from their administrative office.

3. Related Organization

The Detroit Library Cooperative (the "Cooperative"), a public library cooperative, was established under the authority of the State Aid to Public Libraries Act 89 of 1977, as amended by PA 30 of 2005. It was organized to (1) extend and improve access to library services and materials for each child, youth, and adult of the Cooperative region appropriate to his or her informational and recreational needs, (2) improve and strengthen resources and services of member libraries, and (3) encourage continued growth and development of library services to the citizens of the State of Michigan. The Cooperative is governed by a Board of Trustees composed of the members of the Detroit Library Commission. The Detroit Public Library is the initial, and currently the only, member of the Cooperative. Membership in the Detroit Library Cooperative is open to any local library meeting the requirements as set forth by the Cooperative and in Public Act 89 of 1977, as amended by Public Act 30 of 2005 and Public Act 288 of 2011.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, investment earnings, and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources not accounted for in other funds. General Fund activities are financed by revenue from general property taxes, penal fines, and other sources.
- b. Grants and Gifts Fund - The Grants and Gifts Fund is a special revenue fund by which the Library accounts for all of its restricted funds not required to have a separate fund of its own. The Grants and Gifts Fund activities are financed by grants and contributions provided by patrons of the Library.
- c. O'Brien Trust Fund - The O'Brien Trust Fund is a special revenue fund by which the Library accounts for the restricted funds conveyed in trust for the development of Library staff.
- d. Burton Endowment Fund - The Burton Endowment Fund is used to account for the purchase of books, papers, pamphlets and other forms of historical data, which are suitable for the Burton Historical Collection located in the Detroit Public Library. The Burton Endowment Fund's resources are legally restricted by the terms of the endowment agreement.

5. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements used the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. Revenues susceptible to accrual include property taxes, and state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

Budgets were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year-end. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Library's administration prepares budgetary estimates for consideration by the Detroit Library Commission.
- b. In December of the preceding fiscal year, the Detroit Library Commission transmits budgetary estimates to the City of Detroit's Budget Director.
- c. The City's Budget Director compiles budgetary estimates from all City departments for transmission to the Mayor of the City of Detroit in February of the preceding fiscal year for consideration and revision if deemed necessary.
- d. The Budget Director retabulates the budget as revised by the Mayor and transmits the revised budget to the Detroit City Council in April of the preceding fiscal year.
- e. The Detroit City Council reviews and approves the Library's budgets at the functional level and encompasses the budget within the City's budget.
- f. Prior to incurring significant expenditures, the budget is legally enacted through action by the Detroit Library Commission.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash, Cash Equivalents, and Investments

The Library's cash consists of money market checking and savings accounts. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the Library's cash equivalents and investments. Cash equivalents consist of temporary investments in certificates of deposit, money markets, and investment trust funds with an original maturity of 90 days or less. The investment trust funds have the general characteristics of demand deposit accounts in that the Library may deposit and withdraw additional cash at any time without prior notice or penalty.

Investments consist of certificates of deposit, municipal and corporate bonds, stocks, mutual funds, and investment pools with an original maturity of over 90 days. Investments are stated at fair value.

9. Receivables

Receivables consist of property taxes, interest, and other amounts due from other funds, organizations, or governments.

10. Property Taxes

As a component unit of the City of Detroit, the Library's property taxes are levied and collected by the City on behalf of the Library. The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31, in full or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. The Library records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter. The City is permitted to levy up to \$4.6307 per \$1,000 of assessed valuation for Library operations. For the year ended June 30, 2013, the City levied 4.6307 mills for Library operations. The total taxable value for the 2012 levy for the property within the City was \$9,011,121,929.

11. Capital Assets

PRIMARY GOVERNMENT

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Generally, capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. In addition, all land, land improvements, land rights and easements, library materials and rare materials (including works of art and historical treasures) are considered capital assets.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and improvements	20 - 50 years
Works of art	10 - 20 years
Machinery and equipment	5 - 20 years
Collections	5 years
Vehicles	5 - 8 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Capital Assets - continued

COMPONENT UNIT - DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION

Property and equipment are recorded at cost and depreciated over an estimated five-year life using the straight-line method. Upon sale or retirement, the cost and accumulated depreciation is eliminated from the respective accounts and a gain or loss is recorded in the statement of activities.

12. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as liabilities in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only the portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Compensated Absences

In accordance with the Library personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of June 30, 2013, including related payroll taxes, is recorded in the government-wide financial statements.

14. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

15. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

With respect to the endowments held by the Detroit Public Library, deposits and investments are made in accordance with the Uniform Prudent Management of Institutional Funds Act, Public Act 87 of 2009. In addition to an investment otherwise authorized by law or by the endowment agreements, the Detroit Library Commission, subject to specific limitations set forth in the endowment agreements, may:

1. Invest and reinvest the Fund (i.e. endowment funds) in real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government, or subdivision, or instrumentality thereof.
2. Retain property contributed by a donor to the Fund for as long as the governing board deems advisable.
3. Include all or any part of the Fund in a pooled or common fund maintained by the institution.
4. Invest all or any part of the Fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Detroit Public Library. As of June 30, 2013, the carrying amount of the Library's deposits was \$16,563,855 and the bank balance was \$16,854,987, of which \$853,170 was covered by federal depository insurance. The balance of \$16,001,817 was uninsured and uncollateralized.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

As of June 30, 2013, the carrying amount and bank balances for each type of bank account of the primary government are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 2,426,096	\$ 2,717,228
Certificates of deposit	14,137,759	14,137,759
Total deposits	<u>\$ 16,563,855</u>	<u>\$ 16,854,987</u>

The carrying amount and bank balances for each type of bank account of the component unit (Friends Foundation) were not readily available.

Investments

The Detroit Public Library has investments that are held in various investment vehicles. Following is a summary of the Library's investment securities which were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name:

<u>Investment Type</u>	<u>Primary Government</u>		<u>Component Unit (Friends Foundation)</u>
	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>	<u>Fair Value</u>
Short-term investments	\$ 373,730	<90 days	\$ -
U.S. government obligations	447,601	6 years	-
Mortgage backed securities	45,954	13 years	-
Collateralized mortgage obligations	104,223	20 years	-
Asset backed securities	76,470	5 years	-
Domestic and foreign corporate bonds	379,312	6 years	51,806
Mutual funds	4,045	49 days	-
Mutual funds	3,975,625	N/A	1,731,287
Domestic and foreign stocks	3,304,154	N/A	962,463
Uncategorized pooled investment funds	127,518	N/A	-
Total investments	<u>\$ 8,838,632</u>		<u>\$ 2,745,556</u>

The weighted average maturity for each investment type of the component unit (Friends Foundation) was not readily available.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Custodial Credit Risk

The Detroit Public Library has adopted a policy that indicates the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty the Library will not be able to recover the value of its investments that are in possession of an outside party, by diversifying the investment portfolio so the impact of potential loss from any one type of security or issuer will be minimized.

Interest Rate Risk

The Detroit Public Library has adopted a policy that indicates the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of the investment portfolio to less than a given period of time.

Credit Risk

The Uniform Prudent Management of Institutional Funds Act does not limit investments of the endowment funds to certain credit ratings issued by nationally recognized statistical rating organizations. The Detroit Public Library has adopted a policy that indicates the Library's investment goals and objectives.

The investments held by the primary government were rated by Standard & Poor's as follows:

	<u>Fair Value</u>
AAA	\$ 82,317
AA+	45,065
AA	20,295
AA-	23,572
A+	157,666
A	45,965
A-	75,821
Not rated	<u>8,387,931</u>
	<u>\$ 8,838,632</u>

The ratings for investments held by the component unit (Friends Foundation) were not readily available.

Concentration of Credit Risk

The Detroit Public Library has adopted a policy that indicates the Library will minimize custodial credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C: RECEIVABLES

Receivables at June 30, 2013, including the applicable allowance for uncollectible accounts, were as follows:

	General Fund
Receivables:	
Accounts	\$ 117,295
Taxes	<u>46,864,282</u>
Gross receivables	46,981,577
Less: Allowances for uncollectible amounts	<u>(46,864,282)</u>
Total receivables, net	<u><u>\$ 117,295</u></u>

NOTE D: DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units at June 30, 2013, including the applicable allowance for uncollectible accounts, were as follows:

	General Fund
Due from other governmental units:	
City of Detroit	\$ 9,619,429
Wayne County	4,178,076
State of Michigan	948,751
General Retirement System	<u>8,919</u>
Gross amounts due from other governmental units	14,755,175
Less: Allowances for uncollectible amounts	<u>(9,204,228)</u>
Total due from other governmental units, net	<u><u>\$ 5,550,947</u></u>

Based on the City of Detroit's determination that the Library's property tax revenues had not been appropriately adjusted over an eight (8) year period, the Library's management has recorded an allowance for uncollectible amounts from other governmental units. If it is determined that the amount due from the City of Detroit is collectible, the Library will record revenue at the time of collection.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2013, were as follows:

Due to General Fund from:	
Grants and Gifts Fund	<u><u>\$ 1,072,561</u></u>
Due to nonmajor governmental funds from:	
Grants and Gifts Fund	<u><u>\$ 173</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds, and component units have been eliminated.

Transfer to General Fund from:	
Grants and Gifts Fund	<u>\$ 1,433,597</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 1,603,632	\$ -	\$ -	\$ 1,603,632
Capital assets being depreciated				
Land improvements	272,160	-	-	272,160
Buildings and improvements	35,730,696	176,247	-	35,906,943
Works of art	19,775,435	-	-	19,775,435
Machinery and equipment	2,879,985	926,258	-	3,806,243
Collections	136,756,526	1,301,219	-	138,057,745
Vehicles	874,337	-	(153,235)	721,102
Total capital assets being depreciated	196,289,139	2,403,724	(153,235)	198,539,628

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Less accumulated depreciation for:				
Land improvements	\$ (213,659)	\$ (6,686)	\$ -	\$ (220,345)
Buildings and improvements	(19,486,277)	(764,068)	-	(20,250,345)
Works of art	(19,775,435)	-	-	(19,775,435)
Machinery and equipment	(2,228,904)	(98,728)	-	(2,327,632)
Collections	(129,032,686)	(2,066,555)	-	(131,099,241)
Vehicles	(834,510)	(14,142)	153,235	(695,417)
	<u>(171,571,471)</u>	<u>(2,950,179)</u>	<u>153,235</u>	<u>(174,368,415)</u>
Net capital assets being depreciated	<u>24,717,668</u>	<u>(546,455)</u>	<u>-0-</u>	<u>24,171,213</u>
Capital assets, net	<u>\$ 26,321,300</u>	<u>\$ (546,455)</u>	<u>\$ -0-</u>	<u>\$ 25,774,845</u>

Component Unit - Friends Foundation

	Balance May 1, 2012	Additions	Deletions	Balance April 30, 2013
Capital assets being depreciated				
Property and equipment	\$ 2,949	\$ -	\$ -	\$ 2,949
Less accumulated depreciation	<u>(2,130)</u>	<u>(819)</u>	<u>-</u>	<u>(2,949)</u>
Capital assets, net	<u>\$ 819</u>	<u>\$ (819)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

NOTE H: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations (including current portion) of the Library for the year ended June 30, 2013:

Primary Government

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences	<u>\$ 3,135,428</u>	<u>\$ 1,420,719</u>	<u>\$ (1,429,436)</u>	<u>\$ 3,126,711</u>	<u>\$ 1,538,788</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Compensated Absences

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused sick and vacation time under the formulas and conditions specified in the personnel policies. The dollar amount of these rights including related payroll taxes amounted to \$3,126,711 for compensated absences at June 30, 2013. This amount has been recorded in the government-wide financial statements.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE I: ADVANCE PAYABLE TO OTHER GOVERNMENTAL UNITS

In June 2005, the Detroit Retirement Systems Funding Trust issued \$1,440,000,000 (\$640 million of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable Pension Obligation Certificates (POC). The Trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City of Detroit. The City entered into service contracts with the GRSSC and PFRSSC to facilitate the transaction.

The POC were issued for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the two retirement systems of the City, which include the General Retirement System (GRS) and the Police & Fire Retirement System (PFRS), and a portion of the then current year normal contribution. The GRS includes employees and retirees of the Detroit Public Library.

The Library was prorated a portion of the POC liability assumed, representing the Library's share of the UAAL reduction in 2005, which was recorded as an advance from other governmental units.

On February 8, 2006, the governing board of the GRS extended the amortization period for UAAL from 20 to 30 years. Taxable Certificates of Participation, Series 2006, were issued to enable the City of Detroit to replace certain scheduled payment obligations payable over the extended 30-year period under the 2006 service contracts.

Accordingly, the Detroit Retirement Systems Funding Trust issued \$948,540,000 (\$148,540,000 of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable Series 2006 POC. The City also terminated the swap agreements entered into in the 2005 transaction and received \$48,932,455. Again, the Library was prorated a portion of the POC liability assumed, as well as a portion of the deferred swap agreement termination fees. The deferred revenue resulting from the swap agreement termination is being amortized over a period of 29 years.

In June 2006, the City refinanced the POC's issued in June 2005 that were used to fund certain unfunded accrued actuarial liabilities. The City incurred costs of insurance policies, underwriter's discounts, tender fees, and other expenses associated with the 2006 transaction (collectively, costs of issuance). The Library was allocated a portion of these costs of issuance.

The total deferred amount on refunding is comprised of the amount transferred from Series 2005 issuance costs plus tender and redemption premiums paid. It is being amortized over the remaining life of the old POC's Series 2005 (18 years), which is the shorter than the life of the new POC's Series 2006 (28 years).

The following summarizes the Pension Obligation Certificates activity related to the Library for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Advance payable	\$ 24,016,604	\$ -	\$ (381,695)	\$ 23,634,909
Deferred amounts on refunding	(351,031)	-	27,003	(324,028)
Net advance payable	<u>\$ 23,665,573</u>	<u>\$ -0-</u>	<u>\$ (354,692)</u>	<u>\$ 23,310,881</u>

NOTE J: RISK MANAGEMENT

The Library is exposed to various risks of loss for liability, property, employee dishonesty, and employer's liability for which the Library carries commercial insurance.

The Library, through the City of Detroit, is self-insured for workers' compensation losses. Separate analysis of such liabilities is not available for the Library. The Library reimburses the City for all costs incurred related to workers' compensation. The Library has recorded a related liability in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: PENSION PLANS

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each system is a single-employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The GRS provides retirement benefits to employees of the Detroit Public Library. The reports can be obtained from City of Detroit Retirement Systems, 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908, Detroit, Michigan 48226.

These plans are administered in accordance with the City Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State Public Act 314 of 1965, as amended.

Funding Policy

The Library's policy is to fund normal costs and amortization of prior service costs. The Library is required to contribute at an actuarially determined rate. As of June 30, 2011, the most recent actuarial valuation date, the plan was 82.8 percent funded. The actuarial accrued liability for benefits for the GRS was \$3,720,167,178 and the actuarial value of assets was \$3,080,295,734, resulting in actuarial accrued liability of \$639,871,444. The covered payroll of the GRS (annual payroll for active employees covered by the plan) was \$303,379,482 and the ratio for the unfunded AAL to the covered payroll was 211 percent. The Library incurred pension expenses approximating \$2.30 million for the fiscal year ended June 30, 2013.

Employee Contribution Elections

Employees may also elect to contribute (a) 0 percent, (b) 3 percent of annual compensation up to the Social Security wage base and 5 percent of any excess over that, (c) 5 percent, or (d) 7 percent toward annuity savings. Contributions from all City employees during the year ended June 30, 2013, totaled \$13,395,701. Contributions from Library employees only were not readily determinable.

The contribution requirements of plan members and the City of Detroit are established and may be amended by the boards of trustees in accordance with the City Charter, union contracts, and plan provisions.

Members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service.

Members of the GRS who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension.

Employee contributions for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees may withdraw their annuity balance if they have accumulated 25 years of service.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: PENSION PLANS - CONTINUED

The annual pension costs and net pension assets of the Library as of June 30, 2013, are as follows:

Annual required contribution	\$ 3,365,667
Interest on net pension asset	(1,915,077)
Adjustment to annual required contribution	<u>1,373,393</u>
Annual pension cost	2,823,983
Employer contributions made	<u>3,238,659</u>
Change in net pension asset	414,676
Net pension asset, beginning of year	<u>24,241,487</u>
Net pension asset, end of year	<u><u>\$ 24,656,163</u></u>

Additional information regarding city-wide employee participation, benefit obligations, and funding status for the GRS is available in the City's comprehensive annual financial report.

NOTE L: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The City of Detroit provides health care and certain other related benefits (i.e., Other Post-Employment Benefits or OPEB) to retired employees, including retired employees of the Library. The Library reimburses the City of Detroit for costs incurred on behalf of its employees. The benefits are provided and may be amended in accordance with the City of Detroit Charter and union contracts.

Membership in the plan at June 30, 2011, the date of the most recent actuarial valuation, consisted of 295 retirees and beneficiaries currently receiving benefits, 363 active employees, and 44 terminated employees entitled to benefits but not yet receiving them.

The plan does not issue separate stand-alone financial statements.

Funding Policy

Post-employment benefits are financed on a pay-as-you-go basis by the City of Detroit. The Library's share of the post-employment benefits were as follows:

<u>Benefits</u>	<u>City Cost</u>	<u>Retiree Cost</u>	<u>Total Cost</u>
Hospitalization	\$ 1,676,024	\$ 453,491	\$ 2,129,515
Dental care	117,078	14,900	131,978
Eye care	19,058	2,265	21,323
Life insurance	<u>132</u>	<u>53</u>	<u>185</u>
Total	<u><u>\$ 1,812,292</u></u>	<u><u>\$ 470,709</u></u>	<u><u>\$ 2,283,001</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE L: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - CONTINUED

Funded Status and Funding Progress

The Library's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Library's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Library's net OPEB obligation:

Annual required contribution (ARC)	\$ 6,039,160
Interest on net OPEB obligation	689,721
Adjustment to annual required contribution	<u>(594,587)</u>
Annual OPEB cost (expense)	6,134,294
Contributions made	<u>3,166,785</u>
Increase in net OPEB obligation	2,967,509
Net OPEB obligation - Beginning of year	<u>17,243,032</u>
Net OPEB obligation - End of year	<u><u>\$ 20,210,541</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three (3) most recent years ending June 30, were as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual OPEB cost	\$ 5,919,241	\$ 5,903,592	\$ 6,134,294
Percentage contributed	35%	54%	52%
Net OPEB obligation	\$ 14,506,225	\$ 17,243,032	\$ 20,210,541

The funding progress of the plan as of June 30, for the three (3) the most recent valuations is as follows:

	<u>2008</u>	<u>2009</u>	<u>2011</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	63,292,058	71,225,326	77,306,722
Unfunded AAL (UAAL)	63,292,058	71,225,326	77,306,722
Funded ratio	0%	0%	0%
Annual covered payroll	\$ 16,466,166	\$ 16,585,387	\$ 13,522,387
UAAL as a percentage of covered payroll	384%	429%	572%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE L: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - CONTINUED

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumptions about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of a plan and the annual required contributions of the Library are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (the plans as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Library and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011, actuarial valuation, the individual entry-age actuarial cost method was used. Market value was used as the asset valuation method. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis. The actuarial assumptions included a 4 percent rate of investment return (net of administrative expenses), which is the expected long-term investment return on plan assets, and a projected increase in active member payroll of 4.0 percent per year. The unfunded actuarial accrued liabilities are being amortized as a level percent of active member payroll over a period of 30 years.

NOTE M: RESTRICTED NET POSITION

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source preclude their use for unrestricted purposes. The following are the net position restrictions as of June 30, 2013, and April 30, 2013, for the primary government and component unit (Friends Foundation), respectively:

Primary Government

	Expendable	Nonexpendable	Total
Restricted			
Burton Historical Collection	\$ 3,586,819	\$ 155,000	\$ 3,741,819
Poland and Polish-American society material	41,435	30,000	71,435
Medical science	512,266	10,000	522,266
Blind and Physically Handicapped	245,742	-	245,742
Books	20,212	-	20,212
Branch operations and upgrades	287,903	-	287,903
Dennis Archer Archive	24,854	-	24,854
eLibrary	93,819	-	93,819
National Automotive Historical Collection	42,049	-	42,049
TIP Database	109,615	-	109,615
Youth	608,136	-	608,136
Other purposes	503,183	-	503,183
	<u>\$ 6,076,033</u>	<u>\$ 195,000</u>	<u>\$ 6,271,033</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE M: RESTRICTED NET POSITION - CONTINUED

Component Unit (Friends Foundation)

	Expendable	Nonexpendable	Total
National Automotive History Collection	\$ 1,082,521	\$ -	\$ 1,082,521
Burton Historical Collection	-	508,355	508,355
Other	274,456	-	274,456
	<u>\$ 1,356,977</u>	<u>\$ 508,355</u>	<u>\$ 1,865,332</u>

NOTE N: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Commission, Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Detroit Public Library's highest level of decision-making authority is the Library Commission. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a full vote and approval by the Library Commission.

For assigned fund balance, the Library Commission is authorized to assign amounts to a specific purpose. The authorization policy is a full vote and approval by the Library Commission.

For the classification of fund balance amounts, the Library's policy is to spend restricted amounts first, then unrestricted amounts when both restricted and unrestricted amounts are available. Similarly, the Library's policy is to spend committed amounts first, then assigned amounts, and finally unassigned amounts when any of those unrestricted fund balance classifications could be used.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE N: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

	General Fund	Grants and Gifts Fund	O'Brien Trust Fund	Burton Endowment Fund	Nonmajor Funds	Total
Fund Balances						
Nonspendable						
Prepays	\$ 102,976	\$ -	\$ -	\$ -	\$ -	\$ 102,976
Endowment purposes	-	5,000	-	150,000	40,000	195,000
Restricted						
Blind and Physically Handicapped	-	245,742	-	-	-	245,742
Books	-	20,212	-	-	-	20,212
Branch operations and upgrades	-	287,903	-	-	-	287,903
Burton Historical Collection	-	492,516	-	3,094,303	-	3,586,819
Dennis Archer Archive	-	24,854	-	-	-	24,854
eLibrary	-	93,819	-	-	-	93,819
Medical science	-	66,511	-	-	445,755	512,266
National Automotive Historical Collection	-	42,049	-	-	-	42,049
Poland and Polish-American society material	-	-	-	-	41,435	41,435
TIP Database	-	109,615	-	-	-	109,615
Youth	-	608,136	-	-	-	608,136
Other purposes	-	503,183	-	-	-	503,183
Committed						
Driveway construction	121,700	-	-	-	-	121,700
Staff development	-	-	3,654,683	-	-	3,654,683
Assigned						
Library operations	-	703,841	-	-	-	703,841
Subsequent year's expenditures	3,540,708	-	-	-	-	3,540,708
Unassigned	4,736,536	-	-	-	-	4,736,536
TOTAL FUND BALANCES	\$ 8,501,920	\$ 3,203,381	\$ 3,654,683	\$ 3,244,303	\$ 527,190	\$ 19,131,477

NOTE O: PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF BEGINNING NET POSITION

The General Fund's beginning fund balance was decreased \$8,929,193 to correct previously overstated due from other governmental units of \$9,204,228 and accounts payable of \$275,035. Beginning net position in the governmental activities was decreased \$9,965,927 to reflect the correction of the previously overstated due from other governmental units of \$9,204,228 and accounts payable of \$275,035, and an adjustment of \$1,036,734 resulting from a change in accounting principles.

NOTE P: CONTINGENCIES

There are various legal actions pending against the Library. Due to the inconclusive nature of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any.

NOTE Q: SUBSEQUENT EVENTS

Subsequent to June 30, 2013, the Detroit Library Commission approved a contract for security services not to exceed \$546,624. Existing fund balance and future anticipated operating revenues are expected to be sufficient to finance this contract.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE Q: SUBSEQUENT EVENTS - CONTINUED

The City of Detroit Downtown Development Authority (DDA) captures tax increment revenues within its development area pursuant to its Tax Increment Financing and Development Plan for Development Area No. 1 (the DDA plan). The Library is a taxing jurisdiction levying ad valorem property taxes within the development area. In June 2013, the DDA board of directors approved certain amendments to the DDA plan, which included expanding the development area. Subsequent to June 30, 2013, the Library entered into an interlocal agreement with the DDA whereby all of the Library millages captured by the DDA from the real and personal property in the 2013 expansion area will be shared with and remitted to the Library.

In July 2013, the City of Detroit filed for Chapter 9 bankruptcy protection, citing debts and projected long-term liabilities of \$18 billion. Included in the debts and long-term liabilities are the Pension Obligation Certificates (POC) that were first issued in 2005 (and refinanced in 2006) for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the City's two retirement systems. The Library was prorated a portion of the POC liability assumed, representing the Library's share of the UAAL reduction in 2005, which was recorded as an advance from other governmental units. A U.S. Bankruptcy Judge has rejected two proposed settlements between the City of Detroit and two global banks to reduce liabilities associated with Pension Obligation Certificates. As of February 2014, the City's Emergency Manager continues to negotiate with the banks to eliminate the swaps contracts.

NOTE R: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 61, *The Financial Reporting Entity Omnibus*, was implemented in the current period. This Statement, an amendment to Statement No. 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, were implemented during the current year. These statements incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets.

NOTE S: UPCOMING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The statement will be effective for the 2014-2015 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Detroit Public Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 30,447,206	\$ 30,447,206	\$ 29,810,438	\$ (636,768)
Interest and penalties on taxes	189,614	189,614	213,204	23,590
Other taxes	18,738	948,824	934,906	(13,918)
Total taxes	30,655,558	31,585,644	30,958,548	(627,096)
Intergovernmental				
State shared revenue	983,254	-	-	-0-
State aid	313,033	313,033	337,992	24,959
Court fines	664,730	664,730	427,987	(236,743)
Other grants	-	-	405,345	405,345
Total intergovernmental	1,961,017	977,763	1,171,324	193,561
Fines and forfeits				
Library fines	-	-	339,321	339,321
Interest	47,120	47,120	18,503	(28,617)
Other	-	-	58,992	58,992
TOTAL REVENUES	32,663,695	32,610,527	32,546,688	(63,839)
EXPENDITURES				
Current				
Recreation and culture				
Salaries and wages	13,245,738	13,245,738	12,810,992	434,746
Fringe benefits	8,550,897	8,550,897	10,678,039	(2,127,142)
Supplies	334,900	334,900	330,403	4,497
Printing	9,500	9,500	9,868	(368)
Postage	33,000	33,000	17,441	15,559
Contracted services	2,837,765	3,007,765	2,926,121	81,644
Rent	263,461	263,461	253,302	10,159
Marketing	67,153	67,153	5,685	61,468
Insurance	614,600	614,600	599,057	15,543

Detroit Public Library

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2013

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture - continued				
Communications	\$ 481,000	\$ 426,784	\$ 684,142	\$ (257,358)
Utilities	1,829,584	1,829,584	1,469,914	359,670
Repairs and maintenance	387,400	387,400	533,961	(146,561)
Captured property taxes	2,116,809	2,116,809	1,721,056	395,753
Other	205,370	205,370	311,947	(106,577)
Total recreation and culture	30,977,177	31,092,961	32,351,928	(1,258,967)
Capital outlay	1,686,518	1,660,076	3,212,021	(1,551,945)
TOTAL EXPENDITURES	32,663,695	32,753,037	35,563,949	(2,810,912)
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	(142,510)	(3,017,261)	(2,874,751)
OTHER FINANCING SOURCES				
Transfers in	-	-	1,433,597	1,433,597
NET CHANGE IN FUND BALANCE	-0-	(142,510)	(1,583,664)	(1,441,154)
Fund balance, beginning of year	19,014,777	19,014,777	19,014,777	-0-
Prior period adjustment	-	-	(8,929,193)	(8,929,193)
Fund balance, end of year	<u>\$ 19,014,777</u>	<u>\$ 18,872,267</u>	<u>\$ 8,501,920</u>	<u>\$ (10,370,347)</u>

Detroit Public Library

Grants and Gifts Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 470,000	\$ 470,000	\$ 30,804	\$ (439,196)
Interest	-	-	113,964	113,964
Other				
Contributions and donations	20,000	20,000	60,408	40,408
Grants	10,000	10,000	10,000	-0-
Miscellaneous	-	-	1,054	1,054
TOTAL REVENUES	500,000	500,000	216,230	(283,770)
EXPENDITURES				
Current				
Recreation and culture				
Supplies	-	-	278	(278)
Library reference materials	-	-	15,516	(15,516)
Programs	619,172	619,172	232,567	386,605
Publications and subscriptions	11,000	11,000	10,148	852
Contracted services	165,000	165,000	-	165,000
Training	23,000	23,000	4,794	18,206
Repairs and maintenance	195,000	195,000	12,421	182,579
Bank service charges	-	-	15,939	(15,939)
Other	12,800	12,800	54	12,746
TOTAL EXPENDITURES	1,025,972	1,025,972	291,717	734,255
EXCESS OF REVENUES (UNDER) EXPENDITURES	(525,972)	(525,972)	(75,487)	450,485
OTHER FINANCING (USES)				
Transfers out	-	-	(1,433,597)	(1,433,597)
NET CHANGE IN FUND BALANCE	(525,972)	(525,972)	(1,509,084)	(983,112)
Fund balance, beginning of year	4,712,465	4,712,465	4,712,465	-0-
Fund balance, end of year	\$ 4,186,493	\$ 4,186,493	\$ 3,203,381	\$ (983,112)

Detroit Public Library

O'Brien Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interest	\$ 40,000	\$ 40,000	\$ 189,129	\$ 149,129
EXPENDITURES				
Current				
Recreation and culture				
Supplies	-	-	83	(83)
Publications and subscriptions	5,000	5,000	3,999	1,001
Training	35,000	35,000	45,765	(10,765)
Travel	-	-	146	(146)
Bank service charges	-	-	24,787	(24,787)
Other	-	-	379	(379)
TOTAL EXPENDITURES	40,000	40,000	75,159	(35,159)
NET CHANGE IN FUND BALANCE	-0-	-0-	113,970	113,970
Fund balance, beginning of year	3,540,713	3,540,713	3,540,713	-0-
Fund balance, end of year	<u>\$ 3,540,713</u>	<u>\$ 3,540,713</u>	<u>\$ 3,654,683</u>	<u>\$ 113,970</u>

Detroit Public Library

SCHEDULE OF FUNDING PROGRESS

June 30, 2013

OTHER POST-EMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Year Ended June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll [(b-a)/c]
6/30/2011	2013	\$ -	\$ 77,306,722	\$ 77,306,722	0%	\$ 13,522,387	572%
6/30/2011	2012	\$ -	\$ 77,306,722	\$ 77,306,722	0%	\$ 13,522,387	572%
6/30/2009	2011	\$ -	\$ 71,225,326	\$ 71,225,326	0%	\$ 16,585,387	429%
6/30/2008	2010	\$ -	\$ 63,292,058	\$ 63,292,058	0%	\$ 16,466,166	384%

The schedule of funding progress for the General Retirement System is available in separately issued financial statements. The portion attributed to the Library is not readily determinable.

Detroit Public Library

SCHEDULE OF EMPLOYER CONTRIBUTIONS

June 30, 2013

OTHER POST-EMPLOYMENT BENEFITS PLAN

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 6,134,294	52%	\$ 20,210,541
2012	\$ 5,903,592	54%	\$ 17,243,032
2011	\$ 5,919,241	35%	\$ 14,506,225
2010	\$ 5,929,143	33%	\$ 10,687,644
2009	\$ 5,338,304	35%	\$ 6,700,338

The schedule of employer contributions for the General Retirement System is available in separately issued financial statements. The portion attributed to the Library is not readily determinable.

Detroit Public Library

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated. The Library's budgeted expenditures in the General and major Special Revenue Fund have been shown at the activity level.

During the year ended June 30, 2013, the Library incurred expenditures in the General Fund, Gifts and Grants Fund, and the O'Brien Trust Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Total Expenditures	\$ 32,753,037	\$ 35,563,949	\$ 2,810,912
Grants and Gifts Fund			
Total Expenditures and Other Financing Uses	1,025,972	1,725,314	699,342
O'Brien Trust Fund			
Total Expenditures	40,000	75,159	35,159

OTHER SUPPLEMENTARY INFORMATION

Detroit Public Library
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2013

	Permanent		
	Walus Endowment	Biddle Endowment	Total
ASSETS			
Investments	\$ 71,262	\$ 455,755	\$ 527,017
Due from other funds	173	-	173
 TOTAL ASSETS	 <u>\$ 71,435</u>	 <u>\$ 455,755</u>	 <u>\$ 527,190</u>
 LIABILITIES	 \$ -	 \$ -	 \$ -0-
 FUND BALANCES			
Nonspendable	30,000	10,000	40,000
Restricted	<u>41,435</u>	<u>445,755</u>	<u>487,190</u>
 TOTAL FUND BALANCES	 <u>71,435</u>	 <u>455,755</u>	 <u>527,190</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 71,435</u>	 <u>\$ 455,755</u>	 <u>\$ 527,190</u>

Detroit Public Library

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2013

	Permanent		
	Walus Endowment	Biddle Endowment	Total
REVENUES			
Interest	\$ 2,145	\$ 72,460	\$ 74,605
EXPENDITURES			
Current			
Recreation and culture	-	-	-0-
NET CHANGE IN FUND BALANCES	2,145	72,460	74,605
Fund balances, beginning of year	69,290	383,295	452,585
Fund balances, end of year	<u>\$ 71,435</u>	<u>\$ 455,755</u>	<u>\$ 527,190</u>

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the Members of the Audit Committee
of the Detroit Library Commission and
Management of the Detroit Public Library
Detroit, Michigan

In planning and performing our audit of the governmental activities, each major fund and the aggregate remaining fund information of the Detroit Public Library (the Library), a component unit of the City of Detroit, Michigan, as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Library's internal control to be material weaknesses:

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of various financial statement amounts were proposed by the auditors. These misstatements were not detected by the Library's internal control over financial reporting. These entries were necessary to record various transactions in accordance with U.S. generally accepted accounting principles (GAAP). A similar issue was noted and reported in our prior audit comments.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, and results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with GAAP. The auditor cannot be a part of internal controls. Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Library's internal controls.

We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

The following material weakness is specifically related to the branches (decentralized activities) of the Detroit Public Library.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk and through discussions with management of the each of the Library's branches, we noted that the Library did not have sufficient segregation of duties in its accounting structure at the branch locations. Specifically, we noted that the Clerk is able to influence all aspects of the transaction cycle for cash receipts (i.e., receipting transactions, balancing the cash drawer, preparing the deposits, preparing the cash reports, taking the deposits to the bank, etc.). Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud. This issue was noted and reported in our audit comments last year.

As stated previously, while this is a common occurrence in many organizations due to the limited number of employees, the Detroit Library Commission should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In entities where the number of employees is limited and duties cannot be adequately separated, management must provide a greater review and supervision of employee functions and procedures. While greater review and supervision would serve as a mitigating control, it would not necessarily directly address the lack of segregation of duties described in this situation.

We recommend that management review various areas of operation and consider additional segregation of duties at each of the branch locations. If duties cannot be adequately segregated due to the limited number of employees, we recommend management provide greater review and supervision of employee functions and procedures.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Library's internal control to be significant deficiencies:

PREPARATION OF FINANCIAL STATEMENTS

Auditing standards emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with GAAP.

The management of the Detroit Public Library understands substantially all of the information included in the fund financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. This issue was noted and reported in our audit comments last year.

We are communicating these circumstances as required by professional standards. We recommend that management and the Board of Commissioners consider the costs and benefits of preparing government-wide financial statements and related note disclosures internally.

RECONCILIATION OF CAPITAL ASSET RECORDS

During the course of our audit, we noted that a significant amount of capital asset additions per capital asset records are not shown as capital outlay in the same fiscal year. This is because of timing issues caused by the unique control environment at the Library that requires all capital assets to be approved for posting as capital assets by the City of Detroit. This process begins after Library expenditures are approved to be posted on the City's general ledger. The additional time this extra step creates has caused certain additions per capital outlay expenditures in the previous fiscal year to not be shown as capital asset additions until the current fiscal year.

We recommend that the Library and City of Detroit personnel work together to shorten or eliminate this timing issue so that capital assets can be added in the proper fiscal year in the future.

The following significant deficiencies in internal control over financial reporting are specifically related to the branches (decentralized activities) of the Detroit Public Library.

IDENTIFICATION OF CASH REGISTER OPERATORS

During our discussions with various branch managers, we noted that the cash registers utilized by the branches do not identify the operator of the cash register via a log-in or operator number. As a result, transactions cannot be traced to a particular employee. The ability to trace transactions to a particular employee would increase accountability and internal controls over the cash receipting process at the branch locations. This issue was noted and reported in our audit comments last year.

We recommend the Library consider investing in technology that would allow management to implement stronger internal controls over the cash receipting process.

CASH RECEIPTING PROCESS

During our testing of internal controls over cash receipts at the branch and main branch department locations of the Library, we noted the following:

- Five (5) instances at two (2) branches where the cash receipts for the selected test dates were not deposited at the bank until at least eight (8) days after funds were receipted. This occurred at the Chase and Skillman branches.
- One (1) instance at one (1) branch where the cash report was not signed by a manager. This occurred at the Franklin branch.
- Thirteen (13) instances at eight (8) branches where the cash report did not appear to foot and/or cross-foot correctly; however, the amount deposited appeared to be correct. This occurred at the Bowen, Chandler Park, Chaney, Franklin, Hubbard, Jefferson, Knapp, and Parkman branches.

We recommend that all branch deposits be made intact and in a timely manner and that accurate supporting documentation be retained for audit purposes.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following noncompliance and other matters required to be reported:

DELINQUENT ANNUAL FINANCIAL REPORT

Michigan Public Act 2 of 1968 requires annual financial reports of local units of government to be filed with the Local Audit and Finance Division of the State Department of Treasury within six (6) months after the end of the fiscal year. For the year ended June 30, 2013, the audited financial statements are approximately one (1) month delinquent to the State of Michigan.

The Library's financial statement preparation process relies heavily on the City of Detroit's Finance Department and the City's DRMS general ledger. The process also requires a significant amount of manual intervention. These circumstances create an environment that lengthens the time necessary and increases the likelihood of errors occurring during the preparation of the financial statements.

We recommend that the Detroit Library Commission assure that future audits of the Detroit Public Library are completed within the required timeframe.

ELECTRONIC TRANSACTIONS POLICY

During discussions with management, we noted that the Library has not adopted a policy governing the use of electronic transactions and Automated Clearing House (ACH) arrangements. This issue was noted and reported in our audit comments last year. Public Act 738 of 2002 states, "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transactions Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- a. That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- b. That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- c. A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- d. The approval of ACH invoices before payment.
- e. Any other matters the treasurer or ETO considers necessary."

We recommend the Library adopt an electronic transactions policy as required by Public Act 738 of 2002.

GENERAL LEDGER ACCOUNTING SOFTWARE

Currently the Library utilizes QuickBooks accounting software to process certain financial transactions (including the processing of purchase orders) and Civic Systems accounting software to process other financial transactions. In addition, the Library relies on the City of Detroit's DRMS accounting system for financial reporting related to the General Fund for the Library. By relying on various accounting systems, there is increased potential for the need for manual intervention and accordingly, the increased potential for errors occurring in the financial reporting process. This issue was noted and reported in our audit comments last year.

We recommend that the Library evaluate accounting software packages and consider transitioning all transactions that are processed by the Library's staff to a single accounting system. We further recommend that the accounting software selected have the capability to interface with the City of Detroit's DRMS accounting system. By streamlining the Library's accounting functions and interfacing with the City of Detroit's system, greater accuracy and efficiency in the Library's financial reporting process will be gained.

BUDGET VARIANCES

As noted in the required supplementary information to the financial statements, the Library's General Fund, Grants and Gifts Fund, and O'Brien Trust Fund exceeded the amounts appropriated. Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for the General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. The Public Act also requires amendments to be performed prior to incurring additional expenditures.

We recommend the Library monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This communication is intended solely for the information and use of the members of the Audit Committee of the Detroit Library Commission, management of the Detroit Public Library, others within the Library, and applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 19, 2014